EXHIBIT G

CLOSED BLOCK MEMORANDUM

TABLE OF CONTENTS

OVERVIEW

The Closed Block is the mechanism established for the purpose of providing over time for the reasonable dividend expectations of owners of Closed Block Policies. This memorandum sets forth how that purpose is to be addressed both in the initial funding of the Closed Block and in how the Closed Block will actually operate.

Closed Block Objective. The Initial Closed Block Assets shall be allocated to produce cash flows which, together with anticipated revenue from the Closed Block Policies, are expected to be reasonably sufficient to support the Closed Block Policies (including but not limited to the payment of claims, certain expenses and taxes) and to provide for the continuation of dividend scales payable on the Closed Block Policies in 2000 if the experience underlying such scales continues and for appropriate adjustments in such scales if such experience changes, consistent with the requirements of Part Two, Section III of this Exhibit G. (In the case of Closed Block Policies on which no dividends are due in 2000 because they were issued in recent years such as 1999 or 2000, or even in 2001, when this Exhibit refers to the continuation of the dividend scales payable in 2000, it should be understood that the eventual payment of the 2000 dividend scales is anticipated and will be handled either in the determination of the amount of Initial Closed Block Assets or through the Funding Adjustment Charges in Schedule G-3.)

In no event shall the Company be required to pay dividends from assets that are not Closed Block Assets. Notwithstanding any other provisions of the Plan, the Company's decision to establish a Closed Block in connection with the Plan shall in no way constitute a guarantee with respect to any policy or contract that it will be apportioned a certain amount of dividends.

As explained in the Plan (Section 9.4), certain policies of the Canadian branch are in their own Canadian Closed Block as described in Exhibit H, and the Closed Block described in this Exhibit G does not include these policies.

Initial Closed Block Assets shall be determined in accordance with Part One of this Exhibit G. Section I of Part One contains the methodology that is being followed to determine the amount of the Initial Closed Block Assets used to fund the Closed Block as of the midnight between June 30, 2000 and July 1, 2000 (the Plan defines the latter date to be the "Closed Block Funding Date"). Also within Part One, Section II describes the experience assumptions used to determine the amount described in Section I. That is, Sections I and II of Part One describe the initial funding of the Closed Block.

The Closed Block shall be operated for the exclusive benefit of the Closed Block Policies in accordance with Part Two of this Exhibit G. Sections I through X of Part Two describe the operation of the Closed Block. The Closed Block is credited with (or, as appropriate, charged for) all insurance cash flows and investment cash flows with respect to Closed Block Policies as specified in Part Two, Section I. Closed Block Policies include policies in the intermediate monthly premium life insurance product line ("Intermediate" policies), weekly premium life insurance product line ("Weekly Premium" policies), traditional ordinary life insurance policies

("Traditional Ordinary" policies) and Participating Individual Retirement Annuity contracts ("Retirement Annuity" contracts).

Section II of Part Two provides for the investment policy of the Closed Block. Section III provides for the dividend policy of the Closed Block. Section IV provides for the recognition, if any, of reinsurance as it affects the Closed Block.

Section V of Part Two contains the bases upon which to charge the Closed Block for various kinds of taxes other than income taxes and for fees in lieu of actual commissions and expenses after the Closed Block Funding Date.

Section VI of Part Two contains the basis upon which to charge the Closed Block for income taxes after the Closed Block Funding Date.

Section VII of Part Two contains the basis upon which to charge the Closed Block for any Closed Block Policies newly issued after the Closed Block Funding Date.

Section VIII of Part Two contains the basis upon which to credit cash to the Closed Block to fund benefits that the Closed Block must provide after the Closed Block Funding Date on Closed Block Policies that were allocated Policy Credits as demutualization consideration (in lieu of stock or cash). Section VIII also describes the basis for crediting cash to the Closed Block in respect of sales practices liabilities.

Section IX of Part Two provides reporting requirements of the Closed Block. Section X controls amendments to, and termination of, the Closed Block.

Capitalized terms used in this Exhibit have the meanings ascribed to them in the Plan or in this Exhibit.

PART ONE. INITIAL FUNDING OF THE CLOSED BLOCK

I. Amount of Initial Closed Block Assets

The Initial Closed Block Assets are determined to achieve the Closed Block Objective (described on page 1 of this Exhibit G), that is, to produce cash flows which, together with anticipated revenue from the Closed Block Policies, are expected to be reasonably sufficient to support the Closed Block Policies (including but not limited to the payment of claims, certain expenses and taxes specified in Part Two) and to provide for the continuation of dividend scales payable on the Closed Block Policies in 2000 if the experience underlying such scales (as described in Section II of Part One) continues. The 2000 dividend scales were determined at the end of 1999 and are generally payable in 2000 (for Weekly Premium policies, Traditional Ordinary policies and Retirement Annuity contracts) but were payable at the end of 1999 for Intermediate policies.

The Closed Block began operations as of July 1, 2000 with an initial set of assets *provisionally* selected based on an estimate of the amount needed to achieve the Closed Block Objective. This *provisional* selection of assets is described in subsection B below. The determination of the *actual* Initial Closed Block Assets *as of* July 1, 2000 is described in subsection A below.

A. Determination of *Actual* Initial Closed Block Assets

The amount of Initial Closed Block Assets is determined effective as of July 1, 2000 (the "Closed Block Funding Date"). The *actual* Initial Closed Block Assets *as of* the Closed Block Funding Date are determined by:

1. building, for the Closed Block Policies actually in force on the Closed Block Funding Date, a model to project Net Insurance Cash Flow (as specified below) from the Closed Block Policies;

2. building a model to project the Net Investment Cash Flow from the *provisional*[1] Initial Closed Block Assets, making incremental additions or reductions to the amount of these assets, and re-projecting the Net Investment Cash Flow; and

[1] As described below in subsection B, the Company selected a reasonable *provisional* set of Initial Closed Block Assets from among assets in the Individual Insurance and Annuity segment owned on the Closed Block Funding Date. (This is the segment of Prudential's general account that supported the Closed Block Policies heretofore.) This allowed tracking of Closed Block cash flows and accounting for the Closed Block to begin immediately on the Closed Block Funding Date. Following the Closed Block Funding Date the amount of incremental assets needed to fund the Closed Block to complete its establishment as of the Closed Block Funding Date must be calculated. Any change in assets determined by the final model to be needed as of the Closed Block Funding Date to achieve the Closed Block Objective will be added or subtracted, with interest, after such determination.

3. combining the Net Insurance Cash Flow and the Net Investment Cash Flow projected by the models in Steps 1 and 2, and adjusting them for income tax, to project Net Total Cash Flow Available for Reinvestment. The Net Total Cash Flow Available for Reinvestment is projected to be used to purchase new assets, which are assumed to earn investment return. The dollars of investment return projected to be generated by these new assets are subject to income tax in the model. The model continues to project these amounts until the last Closed Block Policy is assumed to terminate.

Assets are re-projected iteratively as described in Steps 2 and 3 (testing different amounts of additional assets to be added or to be removed) until the assets remaining at the end of the projection are approximately zero. When the assets remaining at the end of the projection are approximately zero, then the initial assets in the projection (i.e., the total of *provisional* assets and the incremental assets added or removed) are the *actual* Initial Closed Block Assets reasonably sufficient to satisfy the Closed Block Objective. Steps 1, 2 and 3 are done separately (a) for Intermediate and Weekly Premium policies (excluding Canadian branch policies, which are in the separate Canadian Closed Block), and (b) for Traditional Ordinary policies that comprise the Closed Block Policies, and then the assets as determined by these procedures are combined.

The initial assets as determined from the above-described modeling process are adjusted for other differences between the balance sheet for the Closed Block as represented by the model and the actual balance sheet for the Closed Block, both balance sheets taken as of the Closed Block Funding Date. The largest such balance sheet differences are the reserves on a number of miscellaneous benefits discussed below in paragraph 1.b. (specifically, dividend accumulations, disability premium waiver and accidental death benefit riders, extended term insurance, substandard rating reserves, Option to Purchase Additional Insurance riders and post-conversion excess mortality) and the reserves on Retirement Annuity contracts.[2] Such balance sheet differences also include due premiums, claims incurred but not yet reported, and differences in other reserves, as well as others. As discussed below in paragraph 1.b., the net gains on the miscellaneous benefits are part of the Net Insurance Cash Flows projected by the model. Since the model takes only the net gains from miscellaneous benefits into account, assets equal in amount to the reserves for such benefits must be added separately. With respect to Retirement Annuity contracts, due premiums, claims incurred but not yet reported, and differences in other reserves, the adjustment to initial assets determined to be needed because of these balance sheet differences reflects taxes and may be either dollar of asset for dollar of difference or in proportion to a funding ratio on reserves, depending on the nature of the balance sheet difference. If a balance sheet difference such as the Interest Maintenance Reserve never produces a cash flow effect, neither directly nor through affecting taxes, then no adjustment to initial assets is necessary.

[2] Retirement Annuity contracts are a very small block of business operated in coordination with Traditional Ordinary life insurance business. Test calculations were run using an annuity model analogous to the life insurance models described in Part One of this Exhibit, appropriate Retirement Annuity experience assumptions, the Traditional Ordinary reinvestment interest rate, and the operating rules applicable to Retirement Annuity contracts described in Part Two of this Exhibit.

The initial assets are permissible assets of a New Jersey domiciled life insurer, including (but not limited to) bonds, mortgages, stock, real estate, policy loans on policies in the Closed Block, due and accrued investment income on such assets, cash, and premiums due on the Closed Block Policies.

No existing reinsurance treaties have been taken into account in the determination of the Initial Closed Block Assets, consistent with Part Two, Section IV of this Exhibit G.

The following describes the three steps of the calculations listed above to calculate the *actual* (as distinct from *provisional*) Initial Closed Block Assets.

1. <u>Net Insurance Cash Flow</u>.

   Net Insurance Cash Flow for purposes of the modeling process described herein is the sum of the amounts described in paragraphs (a), (b) and (c) below.

   a. Base policies, excluding the miscellaneous benefits covered in paragraph (b) below. Two models of the Company's Closed Block Policies in force have been developed from the Company's policy records as of midnight at the start of the Closed Block Funding Date. One model covers the Company's Intermediate and Weekly Premium business, and the other model covers the Company's Regular Ordinary business. These models are used to project Net Insurance Cash Flow for base policies excluding miscellaneous benefits, as described below. The model for Regular Ordinary business consists of approximately ten thousand model cells for premium paying and paid-up policies, including reduced paid up policies. The model provides for paid-up dividend additions (both existing amounts and amounts projected to be applied or purchased during the period of the Closed Block operations) and term riders on the primary insured or other insured such as the spouse. Cells in the model are defined by plan (also known as "kind code"), ratebook era (also known as "value basis" and "premium basis"), premium paying status, issue year, and issue age. A substantial majority of the Company's Closed Block business in force is assigned to the model cells based on similarity of characteristics. For example, all policies of a particular plan issued at ages 40 through 49 may be assigned to a model cell representing issue age 45. Male and female risks, nonsmoker and smoker risks, standard and preferred (or "select") risks are all recognized and modeled separately where appropriate. The model for Intermediate and Weekly Premium business is much smaller.

   "Net Insurance Cash Flow" equals the following transactions on Closed Block Policies:
   Premiums (whether paid in cash or by use of dividends or other benefits)
   plus policy loan interest (with an offset in capitalized policy loan interest if not paid in cash)
   plus policy loan repayments (whether paid in cash or by reduced cash benefits)
   minus benefits (whether paid in cash, applied to effect Supplementary Contracts outside the Closed Block, or used to pay policy loans)
   minus policyholder dividends (whether paid in cash or used to pay premiums)

minus new or additional policy loans (including the capitalization of policy loan interest due)
minus specified expense fees
minus specified fees in lieu of state premium taxes (including franchise taxes levied solely on the basis of premium) and guaranty fund assessments
minus specified fees in lieu of payroll taxes.

The following points clarify the handling of certain cash flows in the models:

i. *"Benefits"* include death, withdrawal and maturity benefits. Death benefits incurred in a month are assumed to be incurred on average at mid-month and to be paid when incurred. (As noted in (c) below, some delay in the payment of death claims is recognized at a separate point in the modeling.) Other benefits such as surrender benefits are assumed to arise at the end of policy years for Traditional Ordinary business (but at the end of policy months for Intermediate and Weekly Premium business).

ii. *"Dividends"* are projected assuming a continuation of the 2000 dividend scales. The experience assumptions described in Part One, Section II are selected to be consistent with this projection.

iii. *"Premiums"* are assumed in the model to be received annually on policy anniversaries (unless the premium is for Intermediate and Weekly Premium business, in which case it is waived). The assumption of annualized modal premiums means that for a policy whose actual premium mode is not annual, the premium is assumed to be paid earlier than it is actually paid. To offset the interest payment inherent in modal premium loadings, a percentage reduction factor is applied to premiums, varying by value basis. Similarly, the policy constant represents a weighted average of annual mode policy constants and other mode policy constants adjusted for interest foregone. The assumption that modal premiums are received annually, rather than on modal premium due dates, means that no premium is assumed to be received for the policy from the Closed Block Funding Date (July 1, 2000) until the next following policy anniversary. In fact, cash premiums for non-annual mode premium policies for the policy year that includes July 1, 2000 will be received during that period, and certain fees incurred as a percentage of premium (both those in lieu of administrative expenses and commissions and those in lieu of taxes) as described in Part Two Section V will be incurred by the Closed Block. Therefore, an adjustment to the Initial Closed Block Assets determined by the model, rather than an adjustment to cash flows in the model itself, reduces the Initial Closed Block Assets (as determined by the model) by the amount of the due and off-anniversary remaining premiums expected to be collected (less both the 5% of cash premium fee in lieu of administrative expenses and commissions and the fees in lieu of taxes charged as described in Part Two Section V) on Closed Block Policies from the Closed Block Funding Date to the next policy anniversary.

b. *Miscellaneous benefits.* The net cash flows represented by the net gains on miscellaneous benefits (specifically, extended term insurance, substandard reserves, Option to Purchase Additional Insurance reserves, post-conversion excess mortality reserves, dividend accumulations, disability premium waiver and accidental death benefit riders) are derived separately. For Traditional Ordinary business, such gains are reflected directly in the construction of the dividend scales for the underlying policies; hence, the gains on miscellaneous benefits associated with these policies are developed in a manner consistent with the way in which they are reflected in the dividend scales. For Intermediate and Weekly Premium business, such gains are not reflected directly in the construction of the dividend scales for the underlying policies; hence, the gains on miscellaneous benefits associated with these policies are developed using another projection technique as described below.

c. *Other adjustments.* The model includes aggregate projections for child riders and the interest margin on claims in course of settlement over the life of the Closed Block.

2. Net Investment Cash Flow.

"Net Investment Cash Flow" is the cash flow from both Initial Closed Block Assets and assets assumed to be purchased subsequently. Such Net Investment Cash Flow includes the amounts of coupons (or other forms of interest), dividends paid on stock or other equity interests, rents, and any repayments or prepayments of principal, as well as proceeds from the projected sales of equities and real estate. Net Investment Cash Flow is net of projected default costs and investment expenses. In the case of the Initial Closed Block Assets, the default costs are calculated as percentages of assets in applicable categories, and the investment expense fees are those specified in Part Two, Section V.A and Schedule G-1. In the case of assets purchased subsequently, the net reinvestment rates specified in Part One, Section II.L. are net of both default costs and investment expenses.

3. Reinvestment of Net Cash Flows and Income Taxes

Net Investment Cash Flow is added to Net Insurance Cash Flow, and income taxes for the period (calculated as set forth in Part One, subsections II.I and II.J.) are subtracted to determine the Net Total Cash Flow Available for Reinvestment. (If the income taxes are negative, their absolute value is added.) The Net Total Cash Flow Available for Reinvestment is then assumed to be reinvested at either of two interest rates, depending on whether the business is (a) Intermediate and Weekly Premium policies or (b) the Traditional Ordinary policies included in the Closed Block. (Such reinvestment rate assumptions are specified in Part One, subsection II.L.)

For (a) and (b) separately (where (a) is the Intermediate and Weekly Premium business and (b) is the Traditional Ordinary business included in the Closed Block), the Closed Block

Assets are modeled on a year by year basis until the last Closed Block Policy is assumed to terminate. If the assets remaining at the end of the projection period are zero or approximately zero, then the actual Initial Closed Block Assets are the same as the provisional Initial Closed Block Assets. However, if as is more likely, the assets remaining at the end of the projection period are not zero, then either additional assets are added to the provisional assets, or a portion of the provisional assets are removed, depending on whether the assets remaining at the end of the projection period are less or more than zero. These additional assets (or assets to be removed) are to be in the form of cash, US Treasury securities or investment grade publicly traded corporate bonds in the NAIC 1 category. The entire calculation is repeated to test if the assets remaining at the end of the projection period are zero. This continues until an amount is determined which gives terminal assets of approximately zero.

B. Selection of the *Provisional* Initial Closed Block Assets

The following describes the selection of the *provisional* Initial Closed Block Assets.

A model based on September 30, 1999 Closed Block Policies in force was used in June, 2000, to estimate provisionally that the needed funding as of the Closed Block Funding Date would be approximately $48.9 billion (including policy loans). This estimate reflected estimated trends in growth in reserves – and therefore the estimated trends in growth in needed funding – from September 30, 1999 to the Closed Block Funding Date. Assets in excess of this amount were *provisionally* selected at the Closed Block Funding Date. Such assets actually selected are referred to as the "*provisional* Initial Closed Block Assets." The *provisional* Initial Closed Block Assets and their associated cash flows were identified and credited to the Closed Block starting on the Closed Block Funding Date. These assets consist of policy loans, accrued interest, and premiums due on Closed Block Policies, as well as a large portion of the bonds, mortgages and other investments then in the Individual Insurance and Annuity (IIA) segment of the Company's general account. The bonds, mortgages, and other investments provisionally selected at the Closed Block Funding Date were a pro rata share of each of the existing assets of the IIA segment, with some exceptions. Certain assets were not selected for the Closed Block (e.g., insurance and investment subsidiaries, some partnership and joint venture interests, assets in default). Also, since it was impractical to select and manage a pro rata share of numerous mortgage pools for the Closed Block, specific mortgage pools were selected for the Closed Block. The specific mortgage pools selected for the Closed Block were expected to produce aggregate cash flow patterns over time that are approximately proportional to those of all the mortgage pools in the IIA segment.

Deletions from (or additions to) these *provisional* Initial Closed Block Assets as described above must be determined after the Closed Block Funding Date, to reflect the actual insurance business in force as of midnight at the start of the Closed Block Funding Date, the assets *provisionally* selected, and the actual assets available for a later true-up (which may be in the form of cash, US Treasury securities and investment grade publicly traded corporate bonds in the NAIC 1 category). Once this calculation is completed, any excess/shortfall of the *provisional* funding above/below the *actual* Initial Closed Block Assets needed will be subtracted from/added to the

Closed Block, going to (or coming from) the Company's IIA segment of the general account (with interest consistent with how the calculation is structured) to complete the funding. (The

calculation of interest will recognize that such interest will be included in the calculation of taxable income when income tax is charged to the Closed Block for that period.)

That is, while the selection of these *provisional* assets allowed the Closed Block to start operation, the exact amount of assets *provisionally* selected does not ultimately determine the true funding level. The final calculation is used to determine the correct amount, and any difference between the correct amount and the *provisional amount* is removed from or added to the Closed Block, as appropriate, once the correct amount is determined.

II. Description of Experience Assumptions Used To Determine Initial Closed Block Assets

The 2000 dividend scales are essentially[3] the same as the 1997, 1998 and 1999 dividend scales, so the experience assumptions used to determine the cash flow projections consistent with a continuation of these dividend scales are, in general, based on the average experience of the four periods (generally four years) that were analyzed in the establishment of these dividend scales. The primary experience assumptions and methods used in the projections of Net Insurance Cash Flow and Net Investment Cash Flow are as follows.

A. Mortality

Rates of assumed mortality for the base policies are based on the Company's actual experience as described in recent experience mortality studies. The rates vary by line of business, issue age basis (age last, age nearest, and age next birthday), policy size, issue age, duration since issue and underwriting class (sex, smoking status and standard rating class). The mortality assumptions were selected based on a mortality study using actual Company experience from calendar years 1992 through 1995. These were adjusted, as appropriate, to reflect more recent experience of 1996 through 1998. For Intermediate and Weekly Premium policies, the mortality assumptions are based on the mortality experience of Gibraltar Series Traditional Ordinary life insurance.

Death benefits include face amounts on the base policy and paid up additions, plus termination dividends (if any), plus, where appropriate, potentially both a refund of unearned premiums and a mortuary (pro-rata or full annual policy) dividend.

B. Lapse and Surrender

Lapse and surrender rates for the base policies are based on the 1995 through 1998 persistency studies. The persistency rates vary by line of business, issue age, duration since issue, and permanent versus term business. Permanent policy termination rates vary by policy size. Term policy termination rates vary by policy type. However, Intermediate and Weekly Premium policy termination rates do not vary.

Surrender benefits paid for Traditional Ordinary policies are calculated as policy year end cash values (consistent with company practice of recognizing paid-to-date as applied to a model with annual premium mode), plus annual dividend (if any) due at the end of the policy year, plus termination dividend. Surrender benefits paid for Intermediate and Weekly Premium policies are calculated monthly as interpolated cash values because premiums are waived.

[3] The only change during this period was one made to simplify the dividend scales. In this simplification, the dividend interest rate was increased for the traditional ordinary block of business issued in 1992-1998 from its 1998 dividend scale to its 1999 dividend scale.

Paid up additions are assumed to terminate at the sum of the termination rate for the base policy plus an increment that varies by the value basis (to reproduce actual experience as it varies by ratebook era). (The increment is higher for the more recent value bases, but there is no increment for paid up additions on Intermediate and Weekly Premium policies.)

C. Expenses

Fees in lieu of expenses (such as commissions, general insurance expenses and internal investment expenses) are charged to the Closed Block at the rates and by the methods specified in Schedules G-1 and G-2 and Part Two, Section V. The fee deductions assumed in the cash flow projections reflect the provisions in Part Two, Section V for fees, including the set of investment charges specified by asset type in Schedule G-1 and the set of administrative charges specified by policy counts, death benefit amounts, reserves and premiums in Schedule G-2.

D. Taxes Other Than Income Taxes

State premium taxes and retaliatory taxes (as well as franchise taxes levied solely on the basis of premium) to be charged are assumed in the model to be 2.05% on the excess of model base and rider premiums over 70% of cash option dividends incurred, for all future years. (In the model, cash option dividends represent the combination of cash option, reduce premium option, and dividend accumulation option dividends. Actual dividends used for all three options, when treated as deductible in this formula with these rates, reproduce the premium related taxes that would have been charged for 1995-1998 pursuant to Section V of Part Two.)

Guaranty fund assessments in the model are assumed to be 0.04% of the excess of model base and rider premiums over 70% of the cash option dividends incurred, based on experience in 1989-1998. This longer time period is used to derive a more credible assumption than would come from a four-year period.

Fees in lieu of payroll taxes are set in Part Two, Section V to be 6.50% of the per policy administrative expense fees for all future years.

E. Policy Loan Utilization

The model reflects the actual amount of policy loans as of the Closed Block Funding Date. Both the liabilities created when the Company securitized some of its policy loans and any associated service fees connected with such securitization are not reflected in the models for the Closed Block, pursuant to Part Two, Section I.B.2.

The projections assume that loan interest is earned at the appropriate policy loan rate for each model cell. Over time, adjustable policy loan interest rates are assumed to equal the net reinvestment rate specified in Part One, subsection II.L.

Policy loans are projected assuming policy loan utilization rates are a constant percentage of base policy plus paid up additions cash values, based on the actual policy loan amounts as of the

Closed Block Funding Date. (The policy loan utilization rates used are derived in relation to the cash values excluding dividend accumulations.)

F. Dividend Options

Dividends on Traditional Ordinary base policies are applied to various dividend options according to current experience with regard to how policyholders are using their dividend options, which include paid-up additions and others which the model treats as paid in cash (cash, dividend accumulations and premium reduction).

Dividends earned on paid-up additions on all policies and on Intermediate and Weekly Premium base policies are applied to provide paid-up additions.

G. Insurance Cash Flows for Miscellaneous Benefits

1. Traditional Ordinary business.

a. *Gains* arising from mortality/morbidity experience and from expense margins are reflected, as they have been in the dividend scales, in terms of offsets to expense charges on the base policies – per policy, per $1,000 of insurance, and as a percentage of premiums. These gains (associated with disability premium waiver, accidental death benefits, extended term insurance, and Option to Purchase Additional Insurance reserves) were related to the above indices (policy counts, amounts of insurance, and premiums) for the four-year period 1995-1998, and the resulting factors were averaged. These factors were then applied, in each future year, to the projected amounts of policies, amounts of insurance, and premiums, and the resulting amounts were presumed to be the net cash flow available to support the dividend scales on the base policies.

b. *Gains* arising from investment margins and from the release of reserves upon termination are reflected, as they have been in the dividend scales, as an additional source of investment return on the assets, other than policy loans, supporting the base policies. These gains (associated with disability premium waiver, accidental death benefits, extended term insurance, post-conversion excess mortality reserves, Option to Purchase Additional Insurance reserves, substandard risk reserves, and dividend accumulations), reduced by an amount used to support other interest requirements, were related to the amount of policy reserves in excess of the amount of policy loans. These ratios were calculated for each of the four years, 1995-1998, and the resulting factors were averaged. The resulting factor was then applied, in each future year, to the projected amount of reserves in excess of policy loans, and the resulting amount was presumed to be the net cash flow available to support the dividend scales on the base policies.

c. *As explained above* in the description of the determination of the Initial Closed Block Assets, since the Net Insurance Cash Flows projected in the model take only the net gains from miscellaneous benefits into account, assets equal to the reserves for such benefits are added separately. The amount of Closed Block Assets determined by the model projections is reduced on account of the net cash flows presumed to be available, as described in (a) and (b).

2. Intermediate and Weekly Premium business.

The gains arising from miscellaneous benefits (accidental death benefits, active life disability benefits, and dividend accumulations) associated with these categories of business were not reflected in the underlying dividend scales. Therefore, the gains were projected by deriving experience results for 1995-1998, projecting those results forward in a pattern consistent with the way in which the underlying reserves associated with such benefits are presumed to decline, and calculating the resulting present value. The amount of Closed Block Assets required for these benefits equals the total reserves held with respect to such benefits as of the Closed Block Funding Date, minus the present value just described.

3. Other benefits and adjustments.

Gains on child riders, and gains arising from the lag in death claim settlement (interest earned minus the interest credited on such claim amounts during the period from incurral to settlement) were derived separately, using techniques consistent with those in (2) above. The amount of Closed Block Assets arising from these sources is equal to the reserve on child riders as of the Closed Block Funding date, minus the present value of the gains just described.

H. Tax Reserves

Tax basis terminal reserves and tax basis net premium factors used to calculate income tax as described in subsection I below are calculated for each model cell based on tax valuation basis and method, except for Intermediate and Weekly Premium policies. For Intermediate and Weekly Premium policies the statutory valuation reserves for each model cell are used as the tax basis reserves. The model recognizes that the actual tax calculation for the period starting July 1, 2000 (the Closed Block Funding Date) will assume that there are $322.111 million of unamortized reserve basis changes as of July 1, 2000.

I. DAC Proxy Taxes

The following assumptions are made in calculating net premiums for the purposes of the Internal Revenue Code Section 848 ("DAC proxy tax"), within the Federal income tax calculation discussed in subsection J:

1. Premiums paid by dividends used to purchase paid up additions are treated as excluded premiums for the DAC proxy tax.

2. Premiums paid by dividends used to reduce billed premiums are treated as excluded premiums for the DAC proxy tax.

The DAC proxy tax is based on capitalizing 7.7% of life insurance premiums net of the above adjustments. Consistent with the actual charging of Federal income tax provided in Part Two, Section VI, the model treats all premiums on ordinary life insurance as being on non-tax-qualified business. The DAC amortization period is ten years for the Closed Block Policies. No Authorized Risk Transfer Agreement is in existence on the Closed Block Funding Date, so there are no DAC proxy tax effects of reinsurance to be recognized in the model.

The amortization of the DAC proxy tax arising from premiums paid before the Closed Block Funding Date is included in this calculation. The model recognizes that the actual tax calculation for the period starting July 1, 2000 (the Closed Block Funding Date) will assume that there are $1,056.882 million of unamortized DAC as of July 1, 2000.

J. Federal and State Income Taxes

With a few identified exceptions which are also recognized in the model, the income tax charge to the Closed Block specified in Part Two, Section VI follows the Internal Revenue Code as it applies from time to time. Broadly, this means that, in addition to the DAC proxy tax described in subsection I above, the income tax calculated on the tax basis profit or loss associated with Closed Block activities is charged. The tax basis profit reflects the fees in lieu of commissions, administrative expenses, investment expenses and taxes (other than income taxes) that will be charged to the Closed Block without regard to any different "actual" commissions, expenses and taxes. The income tax calculation in the model reflects the provisions of Part Two, Section VI, such as unamortized reserve basis changes.

Federal and state income taxes (and foreign income taxes net of foreign tax credit against Federal income taxes, as well as franchise taxes calculated in the manner of income taxes) are calculated in the model assuming a combined tax rate of 35.97%. Capital gains (losses) are also taxed at 35.97% while recognizing no differences between the tax and statutory values on initial assets selected for the Closed Block. Of the combined 35.97%, 0.97% represents the average state income tax rate from 1995-1998 after recognizing that it is tax deductible from Federal taxable income. As provided in Part Two, Section VI for actual tax charges and credits, the model recognizes that both operating losses and capital losses produce a cash credit to the Closed Block.

K. Asset Default Rates, Yield Enhancements, Prepayments

The default assumptions for public and private bonds are based on Moody's default studies as modified to reflect Company experience. For commercial mortgages, the default rates are based on Company studies.

The effect of yield enhancement from securities lending is based on Company experience.

For public equities and real estate in the Initial Closed Block Assets, the model assumes that some of these assets are sold each period so that they, in combination with the fixed income assets remaining from the Initial Closed Block Assets, will maintain the same target asset mix over time. (They have no fixed maturity date and because their total return exceeds the cash yield, such equities would tend to grow disproportionately.) Their total returns (including their cash yield, such as the dividend yield on shares of stock) are assumptions, based on Company analyses and expectations. Private equities are assumed to be sold over seven years, and their total returns are also assumptions based on Company analyses and expectations.

For modeling purposes, all Initial Closed Block fixed income Assets are generally assumed held to maturity, unless the asset modeling system (BondEdge from Capital Management Sciences) indicates an economic prepayment at an earlier date or there is a defined sinking fund selected for the asset. All bonds and mortgages with make whole provisions (which compensate the Company for calls when new money rates are lower than the coupon on the bond) are modeled as non-callable.

L. Net Reinvestment Rates

The Net Total Cash Flow Available for Reinvestment is assumed to be reinvested at either of two annual rates: 8.57% for Intermediate and Weekly Premium policies, and 8.06% for Traditional Ordinary policies (and for Retirement Annuity contracts, as noted in footnote 2), which are the average investment experience rates underlying the 2000 dividend scales (which, as described above, were essentially those paid in 1997-2000), after reduction to remove the effect of any retained earnings charge. These investment experience rates are expressed on a basis that is net of defaults and net of the investment fees provided in Schedule G-1. Such investment experience returns arose on the IIA segment assets, from which assets were selected to compose the Initial Closed Block Assets. These rates reflect a spreading of capital gains and losses consistent with the Interest Maintenance Reserve for fixed income assets and over four years for equities.

PART TWO. OPERATION OF THE CLOSED BLOCK

The Closed Block shall be operated for the exclusive benefit of the Closed Block Policies in accordance with Article IX of the Plan and Part Two of this Exhibit G. Sections I through X of Part Two describe the operation of the Closed Block.

As stated in Section 9.2(a) of the Plan of Reorganization, the Closed Block is credited with (or, if negative, charged for) all insurance cash flows and investment cash flows with respect to Closed Block Policies as specified in this Part Two. The Company shall pay all guaranteed benefits for Closed Block Policies in accordance with the terms of such policies**.** The Closed Block Assets are the Company's assets, and the establishment of the Closed Block shall not in the event of the rehabilitation or liquidation of the Company affect the priority of the claims of the holders of Closed Block Policies to such assets in relation to the claims of all other policyholders and creditors of the Company.

I. Credits to and Charges against the Closed Block for Cash Flows on Closed Block Policies

A. Credits to and Charges against the Closed Block.

After the Closed Block Funding Date, insurance cash flows and investment cash flows arising from the operation of the Closed Block shall be credited to or charged against the Closed Block as follows, in each case subject to the specific rules and consistent with the assumptions and methodologies set forth in this Exhibit G.

1. <u>With respect to insurance cash flows:</u>

a. *The Closed Block shall be credited or charged,* as the case may be, for (i) premiums and annuity considerations paid with respect to Closed Block Policies, including but not limited to any premiums and annuity considerations paid by the Company with respect to a policy that is the subject of an ADR claim and that otherwise satisfies the criteria for a Closed Block Policy, as specified in Part Two, Section VIII; (ii) cash repayments of policy loans made with respect to Closed Block Policies; (iii) policy loan interest paid in cash on Closed Block Policies; (iv) death or maturity benefits, surrender values and new policy loans taken in cash with respect to Closed Block Policies; (v) dividends on policies and riders that are Closed Block Policies; and (vi) policy credits in respect of Closed Block Policies as specified in Part Two, Section VIII.

b. *Fees in respect of administrative and overhead expenses* and certain commissions and commission-related expenses incurred by the Company in connection with the performance of its obligations under the Closed Block Policies shall be charged against the Closed Block. The fees shall be in the amounts determined in accordance with the schedule specified in Section V.B. and shall be charged in lieu of the actual expenses incurred by the Company or any Prudential Affiliate providing such services.

c. *The Closed Block shall be credited or charged*, as the case may be, in respect of premium taxes and retaliatory taxes (including franchise taxes levied solely on the basis of premiums), incurred on premiums received in respect of Closed Block Policies, and payments made or received in connection with membership in a state guaranty association or imposed by any mandatory pool, fund or association. The amounts to be credited or charged shall be determined in accordance with the procedure described in Section V.C.1 and V.C.4. below.

d. The Closed Block shall be charged in respect of payroll taxes in accordance with the procedure described in Section V.C.2. below.

e. The Closed Block shall be credited or charged, as the case may be, in respect of income taxes and franchise taxes calculated in the manner of income taxes in accordance with the procedure described in Section VI below.

f. Amounts in respect of certain expenses to adjust funding in connection with Closed Block Policies issued on or after the Closed Block Funding Date shall be charged against the Closed Block. The amounts of such charges shall be determined in accordance with the schedule specified in Section VII below and shall be charged against the Closed Block to adjust funding in connection with Closed Block Policies.

<u>2. With respect to investment cash flows:</u>

a. *Investment-related cash flows* from the Closed Block Assets, including, but not limited to, interest, coupon payments, dividends, proceeds of asset sales, maturities and redemptions, shall be credited to the Closed Block.

b. *Fees in respect of investment-related expenses* related to managing the Closed Block Assets (covering investment management fees, record keeping expenses, bank fees, accounting and reporting fees, fees for asset allocation and fees for investment policy, planning and analysis) shall be charged against the Closed Block. The fees shall be in the amounts determined in accordance with the schedule of investment fees specified in Section V.A. below and shall be charged in lieu of the actual internal investment-related expenses incurred by the Company or any Prudential Affiliate providing such services.

c. In addition to the fees specified in the preceding paragraph, amounts shall be charged against the Closed Block for direct investment expenses, including the brokerage cost of acquiring investments and the brokerage cost and transaction expense of disposing of investments. The Closed Block shall also be charged for real estate expenses and real estate taxes in proportion to the Closed Block's holding of any interest in real estate giving rise to such expenses and taxes, as specified in Sections V.A. and V.C.3. below. Real estate taxes shall be charged to the Closed Block when payable to the taxing entity.

B. Special Cases

1. Unreported Deaths

The Closed Block will be charged for death (or dismemberment) claims incurred before, but not reported as of, the Closed Block Funding Date. The Closed Block will not be charged for death (or dismemberment) claims incurred and reported before, but not paid as of, the Closed Block Fund Date. Disablements before the Closed Block Funding Date generating a premium waiver claim on a Closed Block Policy are a liability of the Closed Block. The Initial Closed Block Assets include an adjustment to model results to fund for the Incurred But Not Reported Liability.

2. Policy Loan Securitization

The operation of the Closed Block will not be affected by, and will not reflect, the liabilities created when the Company securitized some of its policy loans (nor any associated service fees connected with such securitization).

3. Annuitization

The amount of cash value or death benefits applied to annuitize a Retirement Annuity contract or to effect a Supplementary Contract will be charged against the Closed Block at the time of such application. The annuitized Retirement Annuity contract or Supplementary Contract shall thereafter be a liability of the Company, but not of the Closed Block.

II. Investment Policy of the Closed Block

As of the Closed Block Funding Date, new investments of the Closed Block cash flows shall be acquired in conformity with an investment policy statement for the Closed Block that is consistent with investment guidelines approved from time to time by the Investment Committee of the Board or its successor. Such investment policy statement shall address, to the extent applicable, investment objectives, permissible asset class categories, permissible investments, valuation methodology, internal reporting, risk limits and performance factors and measurements. The Closed Block Assets shall be managed in the aggregate to seek a high level of return consistent with the preservation of principal and equity, through asset-liability management, strategic and tactical asset allocation and manager selection/performance and shall reflect the duration and ability to take risk consistent with the nature of the Closed Block.

No assets shall be reallocated, exchanged or transferred between the Closed Block and any other portion of the Company's general account or any Prudential Affiliate, except (i) in accordance with this provision, (ii) as provided in the Closed Block Memorandum, or (iii) as approved by the Commissioner. To facilitate the management of Closed Block cash flows, the Closed Block may participate in pooled short term accounts maintained by the Company on a basis no less favorable than any other portion of the Company's general account. Any other transfers, exchanges, investments, purchases or sales of assets between the Closed Block and any other portion of the Company's general account or any Prudential Affiliate may be effected if such transactions (i) benefit the Closed Block, (ii) are consistent with the investment policy statement and objectives described in the prior paragraph, (iii) are executed at demonstrable fair market values, and (iv) do not exceed, in any calendar year, more than 10% of the statutory statement value of the invested assets of the Closed Block as of the beginning of that year.

III. Dividend Policy of the Closed Block

A. **Dividends on Closed Block Policies** shall be apportioned annually by the Board in accordance with applicable law and applicable standards of actuarial practice as promulgated by the Actuarial Standards Board or its successor so as to reflect the underlying experience of the Closed Block and with the objective of managing aggregate dividends so as to exhaust the Closed Block Assets when the last Closed Block Policy terminates while avoiding an outcome in which relatively few last surviving holders of Closed Block Policies receive dividends that are substantially disproportionate (either higher or lower) to those previously received by other holders of Closed Block Policies. The current practices with respect to the irrevocable apportionment of dividends shall continue unless the financial benefits of such practices are no longer available to the Company.

B. Subject to paragraph A. above, dividends on Closed Block Policies shall be apportioned, and shall be allocated among Closed Block Policies, so as to reflect the underlying experience of the Closed Block, and the degree to which the various classes of Closed Block Policies have contributed to such experience.

IV. Reinsurance or Other Transfer of Risk

A. The Closed Block will not be charged (nor credited) for cash flows and tax effects of any reinsurance agreements in existence on the Closed Block Funding Date.

B. For any future reinsurance agreements the Company may, with the Commissioner's prior consent, and subject to Article 7 of Chapter 18 of Title 17B of the New Jersey Revised Statutes, enter into one or more agreements to reinsure or otherwise transfer all or any part of its risks under the Closed Block Policies. Notwithstanding any other provision of Article IX of the Plan or of this Exhibit G, (1) the agreement may provide for the transfer of all or part of the risks associated with Closed Block Policies and/or the transfer of ownership or, or other interest in, Closed Block Assets or funds not allocated to the Closed Block supporting such risks; (2) amounts paid and received by the Company in connection with any such agreement may be allocated to the Closed Block in accordance with any methodology approved by the Commissioner; (3) cash flows from any transferred Closed Block Assets may be considered to be investment cash flows of the Closed Block for purposes of establishing dividends and meeting policy obligations on Closed Block Policies; and (4) the Company may use Closed Block Assets or funds not allocated to the Closed Block as reinsurance premiums or other consideration for such agreement *provided*, in each case, and without limiting the grounds on which the Commissioner may withhold approval, the Commissioner shall not approve such action if the Commissioner finds that such action shall have the effect of lessening the extent to which the reasonable dividend expectations of the holders of Closed Block Policies are provided for by Article IX of the Plan and by this Exhibit G.

V. The Bases Upon Which To Charge the Closed Block for Fees and Taxes Other Than Income Taxes

Cash shall be regularly and promptly withdrawn from the Closed Block for fees in lieu of commissions, expenses, and taxes other than income taxes in accordance with the following formulas:

A. Investment Expenses

The charges for investment expenses for each class of investments in the Closed Block will be determined in two components, direct investment expenses (such as brokerage costs, which will be charged as they are incurred), and fees in lieu of internal investment expenses.

The Closed Block will be charged for direct investment expenses. The brokerage cost of acquiring investments is reflected in the cost of such investments. The brokerage cost and transaction expense of disposing of investments will be deducted from the gross proceeds of such sales. The Closed Block will be charged for the actual operating expenses (and real estate taxes, as noted below) incurred with respect to real estate owned by the Closed Block.

Fees in lieu of internal investment expenses (to cover investment management fees, record keeping expenses, bank fees, accounting and reporting fees, fees for asset allocation, and fees for investment policy, planning and analysis) will be charged as fixed basis point charges that vary by asset type. Specifically, the internal investment fees will be, at an annual rate on Closed Block Assets valued on a statutory basis, a charge varying by asset category as shown in Schedule G-1. These Schedule G-1 fees will be prorated and charged on a quarterly basis at the end of each quarter, based on the assets as of the beginning of each quarter. These Schedule G-1 fees will be in lieu of any allocation of actual investment management expenses of the type currently reported in Exhibit 2 of the NAIC blank.

B. Administrative Expenses and Commissions

Fees in lieu of administrative expenses will be charged at the end of the quarter based on the Closed Block policy counts, death benefits, and reserves as of the beginning of each quarter. Such fees will be calculated at the annual rates shown in Schedule G-2, prorated.

In addition, fees in lieu of administrative expenses and commissions will be charged at the end of the quarter at the rate of 5% on cash premiums received in the prior quarter on Traditional Ordinary life insurance Closed Block policies and will be charged at the rate of 7.5% on cash premiums received in the prior quarter on Closed Block Retirement Annuity contracts. No fees will be charged on the premiums waived and not collected on Intermediate and Weekly Premium policies. Cash premiums for this purpose exclude premiums waived for disability but include billed premiums on Traditional Ordinary life insurance policies paid by application of dividends to reduce such billed premiums. In the first calendar quarter (which starts with the Closed Block Funding Date) there will be no percentage of premium charge for premiums received before the Closed Block Funding Date.

These charges are in lieu of any allocation of actual administrative expenses of the type currently reported in Exhibit 5 of the NAIC blank. The 5% and 7.5% of premium fees are also in lieu of any commissions of the type currently reported in Exhibit 1 of the NAIC blank. Furthermore, these charges are also in lieu of any overhead expenses and commission related expenses.

C. Taxes Other Than Income Taxes

State premium taxes and retaliatory taxes (including franchise taxes levied solely on the basis of premiums) incurred on premiums received in respect of Closed Block Policies, guaranty fund assessments, payroll taxes, and real estate taxes will be calculated and promptly charged to the Closed Block as follows:

1. The charges for state premium taxes and retaliatory taxes (before taking any credit or offsets such as guaranty fund assessments or state or local income tax) of the Company in respect of Closed Block business will be charged to the Closed Block, on a state by state basis, in an amount equal to (1) the life insurance premium of the Closed Block subject to taxation in a particular state (or subject to taxation in New Jersey -- which is the Company's domicile -- if retaliatory tax is applicable) less any dividend deduction allowed by that state (or allowed as a deduction by New Jersey if retaliatory tax is applicable), multiplied by (2) the Aggregate Statutory Premium Tax Rate of the applicable state. For purposes of the previous sentence, the Aggregate Statutory Premium Tax Rate of a particular state shall be either (a) the applicable state statutory premium tax rate (plus the rate of any franchise tax levied solely on the basis of premium) or (b) the applicable statutory premium tax rate of New Jersey, depending on which premium as defined in term (1) in the previous sentence is used. (The New Jersey definition of premium and the New Jersey premium tax rate is used if such retaliatory tax calculation produces the higher tax.) Further, both the charging and the funding for premium tax charges will ignore the fact that some small amount of premium is on tax qualified contracts, but rather will treat all Closed Block premium as non-tax-qualified premium. Local premium taxes will not be charged because they are negligible. Premium taxes will be charged on an estimated basis in the middle of each calendar quarter, with an additional charge or credit after the end of each calendar year to true up to the correct premium tax for the year, as the Company identifies state by state "taxable income" and allocates premium tax normally. In the case of an audit adjustment on a premium tax return for a period after the Closed Block Funding Date, the Company shall make an equitable adjustment, to charge (or credit) retroactively the audit adjustment to tax.

2. The Closed Block shall be charged fees in lieu of payroll taxes as of the end of each quarter equal to the Payroll Tax Rate multiplied by the Administrative Expense Fees charged that quarter to the Closed Block at the annual rate of $54 per policy. The Payroll Tax Rate shall be 6.50% unless and until the Company shall have proposed and the Commissioner shall have approved a new method to calculate the Payroll Tax Rate for each year after such approval, which new method shall be related to the actual experience

of the Company. Payroll taxes include all taxes such as Federal social security, Medicare, and unemployment taxes and similar state and local taxes, as well as future taxes of the same or similar nature.

3. Real estate taxes incurred in a given year on Company assets will be charged to the Closed Block in proportion to the ownership of the specific assets giving rise to such real estate taxes. Such real estate taxes will be charged to the Closed Block when payable to the local government.

4. Fees in lieu of guaranty fund assessments (if not offset against premium taxes) will be charged to the Closed Block based on a formula that multiplies the current year Closed Block's premium "taxable income" times the ratio from the prior calendar year of the guaranty fund life insurance assessments to the total Company life premium "taxable income". Such fees will be charged to the Closed Block quarterly at the same time premium taxes are charged (four quarterly estimates and a true-up after the end of the calendar year).

In the event the nature or basis of any taxes or assessments described above is materially modified by the taxing or assessing authority, the Company will appropriately revise the calculation of fees in lieu of taxes or assessments charged to the Closed Block. The Company will promptly report to the Commissioner the reason for the revision and explain the new calculation. Such revision will be subject to review by the Commissioner. If, as a result of the Commissioner's review, a modification is needed to the revision, such modification shall be made retroactive to the time the change was first instituted.

VI. The Basis Upon Which To Charge Income Taxes to the Closed Block

This Section provides for income tax charges in the operation of the Closed Block, but has no impact on the overall tax liabilities of the Company or of any affiliated group of which the Company is a member.

A. Computation of Federal Income Tax Charge to the Closed Block

A Federal income tax charge will be determined for the Closed Block Policies as if the Closed Block were a separate stock life insurance corporation with the same character as the Company under the Internal Revenue Code (having only those items and amounts of income, gain, loss, and fees in lieu of expenses as are provided for in the Plan of Reorganization or in this Closed Block Memorandum) and filing separate Federal income tax returns for each tax period after the Closed Block Funding Date. Items such as actual expenses or reinsurance not charged to the Closed Block do not affect the calculation of tax to be charged to the Closed Block. Both charges for any foreign income taxes and any corresponding foreign income tax credits against the Federal income tax are recognized. This hypothetical Closed Block tax calculation will be based on the Internal Revenue Code as applicable from time to time, modified as follows:

1. The tax rate will be the applicable maximum corporate income tax rate or rates for net capital gains and other types of taxable income then in effect.

2. Ordinary taxable income (loss) for the Closed Block will be calculated according to the applicable tax law then in effect, as modified for simplifications specified below.

   Such ordinary taxable income (loss) is currently:

   - the statutory gain from operations after policyholder dividends (i.e., Annual Statement Summary of Operations Line 29) for those items included in the Closed Block as noted above,[4]
   - but substituting the tax basis reserves and tax basis dividends for statutory basis reserves and statutory basis dividends,
   - excluding any effect of the Interest Maintenance Reserve,
   - less (plus) the increase (decrease) in net due and deferred premiums to the extent used in the statutory gain,
   - plus the one-tenth adjustment for tax reserve basis changes (including those unamortized as of the Closed Block Funding Date, which shall be deemed to be $322.111 million),
   - plus capitalized policy acquisition expenses arising under Section 848 of the Code, less amortization of such amounts (including prior amounts as specified below),
   - adjusted for the differences between book and tax bases of new assets purchased after the Closed Block Funding Date, but not the differences

[4] This amount would be before fees for state and local income taxes determined by Subsection E below.

between book and tax bases of Initial Closed Block Assets (as specified below).

3. The Federal income tax charge to the Closed Block will ignore any dividend received deduction on the Initial Closed Block Assets, but the dividend received deduction on Closed Block Assets purchased after the Closed Block Funding Date will be allocated to the Closed Block.

4. The taxable realized capital gains and losses will recognize the tax basis for assets purchased after the Closed Block Funding Date, including any differences between tax and statutory asset bases, but will use the statutory basis realized capital gains as the taxable realized capital gains for the Initial Closed Block Assets.

5. There will be no charge for tax under Section 809 of the Code. That is, the deduction for policyholder dividends paid shall not be limited by Section 809 of the Code in the separate tax calculation for the Closed Block.

6. If a new asset is allocated in part to the Closed Block and in part to the remainder of the Company (or to an affiliate of the Company), then the tax benefits or detriments attributable to that asset shall be allocated pro rata.

7. The Closed Block will use the same elections and methods of accounting as are used in the determination of the Company's Federal income tax liability.

8. Any intracompany or intercompany transactions and distributions between the Closed Block and the non-Closed Block (or any affiliate of the Company) will be recognized in determining the Closed Block separate return tax liability, without regard to consolidated tax return principles and whether or not such transactions are deferred or actually recognized for Federal tax purposes. However, the funding adjustment charges provided in Part Two, Section VII are not treated as tax-deductible because the factors in Schedule G-3 have been calculated on an after tax basis.

9. Section 848 of the Code (relating to the capitalization of policy acquisition expenses) will be taken into account by increasing the Closed Block's taxable income by an amount equal to the "specified policy acquisition expenses" under Section 848(c)(1) (treating all premiums as non-tax-qualified, and determined without regard to any limitation based on the amount of the Closed Block's "general deductions") and allowing an amortization deduction in a corresponding amount ratably over a 120-month period (or any other acceptable period as defined in Section 848(a)). The Closed Block's hypothetical separate return tax calculation will reflect any amortization relating not only to those policy acquisition expenses capitalized on or after the Closed Block Funding Date, but also those capitalized before and not yet amortized by the Closed Block Funding Date, which will be deemed to be $1,056.882 million.

In the event the nature or basis of any taxes described in A. above (or in E. below) is materially modified by the taxing authority, the Company will appropriately revise the calculation of taxes or assessments charged to the Closed Block. The Company will promptly report to the Commissioner the reason for the revision and explain the new calculation. Such revision will be subject to review by the Commissioner. If, as a result of the Commissioner's review, a modification is needed to the revision, such modification shall be made retroactive to the time the change was first instituted.

B. Charges to the Closed Block in Cash for its Positive Separate Return Tax Liability

The Closed Block will be charged an amount equal to the Closed Block's positive separate return tax liability, including quarterly estimated tax payments.

C. Credit to Closed Block in Cash for Tax Benefits Associated with Losses

The Closed Block will be credited as soon as possible after each final income tax payment due date for any income tax benefit for operating losses, capital losses and credits it generates whether or not such losses or credits are used by the Company in computing the tax liability on the consolidated Federal income tax return for the affiliated group of which the Company is a member. After each estimated tax payment date, the Closed Block will be credited as soon as possible for any income tax benefit used in reducing the consolidated payment for the affiliated group of which the Company is a member. However, in no event shall the cumulative amount credited for the year to date be less than the appropriate percentage of the projected full year tax benefit at the time of such payment; i.e., 25% of the projected full year tax benefit as of the first quarter estimated payment due date, 50% as of the second quarter, 75% as of the third quarter, and 100% as of the fourth quarter.

D. Audit Adjustments

The Company may be audited by the Internal Revenue Service (or state tax authorities), resulting in adjustments to its tax liability on Federal or state (or both) income taxes that may affect the Closed Block in different ways.

1. <u>In the event of an adjustment</u> to the Federal (or state) income tax return for the Company for a tax period commencing with or after the Closed Block Funding Date (e.g., arising from an audit by the Internal Revenue Service, an amended return, or a claim for refund allowed by the Internal Revenue Service), the Company shall recompute the separate return tax liability for the Closed Block pursuant to the procedures set forth in subsection A. above (or E. below).

2. <u>If the adjustments</u> applied to the Company's tax return, when carried over to the calculation of tax for the Closed Block, result in an increase in the separate return tax liability for the Closed Block for the tax year in question, the Closed Block shall be charged an amount equal to the increase in the separate return tax liability on the date that such additional tax liability is paid by the Company to the Internal Revenue Service (or

state tax authority). If the adjustments result in an increase in the separate return tax liability for the Closed Block and include statutory interest, additions to tax, or penalties that are attributable, in whole or in part, to the increase in the separate return tax liability for the Closed Block, the Closed Block shall also be charged for the allocable share of those amounts on the same date that it is charged for the increase in the Federal income tax liability. In the event that a subsequent adjustment results in a reduction in the amount charged to the Closed Block under this section, such later adjustment shall be credited to the Closed Block similarly. In no event, however, shall the Closed Block be charged for any amounts attributable to taxable periods prior to the Closed Block Funding Date.

3. <u>In the event that the adjustments</u> to the Federal (or state) income tax return result in a decrease in the separate return tax liability for the Closed Block, the Closed Block shall be credited in an amount equal to the decrease (together with the allocable portion of any interest refunded with the decrease in tax) on the date that such amount is received from the Internal Revenue Service (or state tax authority). In the event that a subsequent adjustment results in a reduction in the amount credited to the Closed Block under this section, such later adjustment shall be charged to the Closed Block in accordance with the procedures set forth in the preceding paragraph. In no event shall the Closed Block be credited for any reduction in Federal (or state) income tax liability relating to taxable periods prior to the Closed Block Funding Date.

E. Computation of State Income Tax Liability of Closed Block

Fees in lieu of state and local income taxes (including franchise taxes calculated in the manner of income taxes), ignoring any reductions in premium taxes because of such state income taxes, are charged to the Closed Block on a formula that multiplies the Federal taxable income in the Closed Block (as determined in subsection A above but before deduction of state income taxes) by the prior year ratio of (1) to (2), where (1) is the Company's total state and local income tax (including franchise taxes calculated in the manner of income taxes, but net of any reductions in premium taxes because of such state income taxes) and (2) is the Company's total Federal taxable income (but before deduction of state income taxes). Such charges for state and local income taxes are deducted from the Closed Block at the same time that Federal income taxes (including estimated taxes and audit adjustments) are charged pursuant to paragraphs B, C and D above.

VII. The Basis Upon Which To Charge the Closed Block for Closed Block Policies Newly Issued after the Closed Block Funding Date

A. Closed Block Policies Issued After Closed Block Funding Date and Prior to Effective Date

For Closed Block Policies issued after the Closed Block Funding Date and prior to the Effective Date, a charge will be deducted from the Closed Block. This charge will not be considered a deduction from gain in the calculation of income tax because the factors specified are already net of income tax. This charge represents the approximate present value of all commissions and acquisition expenses in excess of fees to be charged to the Closed Block pursuant to Section V and Schedules G-1 and G-2, such as certain field costs and underwriting and issue expenses, plus the anticipated profit after policyholder dividends. (Equivalently, the amount withdrawn is approximately the present value of premiums less the present value of benefits and expense charges.)

The amount to be withdrawn for new Closed Block policy issues will vary according to series, as shown in Schedule G-3.

Amounts to be withdrawn are accrued at the time of policy issue, although the actual deduction will be made at the end of the following calendar quarter.

In addition to the charges specified above, the fees in lieu of expenses and the taxes specified in Part Two, Sections V and VI shall be charged on these policies and riders.

B. Original Issue Date Conversions

Some policies and riders provide the policyholder a right to convert a policy as of the original issue date. For example, a few "Divorce and Tax Law Change Riders" on inforce survivorship contracts allow an exchange to a Life at 85 policy with the same issue date as the survivorship contract. In those cases where the newly issued policies (such as the Life at 85 policies) go into the Closed Block, these new policies will not be subject to a Funding Adjustment Charge. In lieu of the charge at issue in the Schedule G-3, the Company will transfer cash into the Closed Block equal to the sum of the cash value of the existing policy plus any charge the Company made upon exchange, such as 105% of the difference in cash values between the old and new contracts. Such cash transfer (and related increase in tax basis reserves) would be recognized in the calculation of income tax for the Closed Block.

VIII. The Bases Upon Which To Credit Cash to the Closed Block in respect of Policy Credits and Sales Practices Liabilities

If the Company is obligated to credit an enhancement to policy values (such as dividend accumulations) on a Closed Block Policy after the Closed Block Funding Date because a policy credit is provided under the Plan of Reorganization in lieu of a distribution of shares or cash, then the Company will credit cash to the Closed Block equal to the value of the credit.

If the Company is obligated to pay a premium or credit an enhancement on a Closed Block Policy after the Closed Block Funding Date in respect of sales practices liabilities, then the Company will credit cash to the Closed Block equal to the value of the premium or credit.

IX. Reporting Requirements

A. The Company shall provide the Commissioner as supplemental schedules to its statutory Annual Statements for each year commencing with the year in which the Effective Date occurs (1) financial schedules, consisting of the information required by Annual Statement pages 2, 3, 4, and 5 and (2) investment schedules, consisting of the information required by Annual Statement Schedules A, B, BA, D, and E (or comparable information under financial reporting requirements as they may be established from time to time for the Company as a whole by the Commissioner after the Adoption Date), in each case for the Closed Block. By June 1 of the year subsequent to the year being reported, the Company shall submit to the Commissioner an attestation report or the equivalent of a firm of independent public accountants as to the financial schedules of the Closed Block referred to in clause (1) above. Additionally, the Company shall submit to the Commissioner by June 1 of each such year a report, prepared at the Company's request by a firm of independent public accountants, on the results of certain procedures, to test the Company's compliance with the Closed Block cash flow provisions of this Part Two. These reporting obligations shall continue for so long as the Commissioner may require. The annual report required by this Section IX shall be submitted in a form acceptable to the Commissioner and in accordance with procedures acceptable to the Commissioner.

B. The Company shall submit to the Commissioner by June 1 of the fifth calendar year following the calendar year of the Effective Date and every five years thereafter a report, prepared in accordance with applicable actuarial standards, of an independent actuary, who shall be a member of the American Academy of Actuaries, concerning the operations of the Closed Block.

X. Amendment or Cessation of Closed Block

A. The Company may amend the terms of or cease to maintain the Closed Block with the prior approval of the Commissioner, subject to such terms and conditions as the Commissioner may approve, if the Commissioner determines that: (1) assurances provided by the Company or other conditions provide adequate safeguards to provide for the reasonable dividend expectations of the holders of Closed Block Policies and (2) either (x) the Closed Block is no longer necessary to effectuate the purposes of this Article or (y) the Closed Block has been so reduced in size as to make continued operation of the Closed Block impracticable. Terms and conditions imposed by the Commissioner may include, without limitation, requiring actuarial opinions from independent actuaries hired by the Company, and by the Commissioner at the Company's expense, that appropriate provision has been made for the dividend expectations of holders of Closed Block Policies. If the Closed Block is discontinued, the Closed Block Policies then remaining shall continue to be obligations of the Company and dividends on such Policies shall be apportioned by the Board in accordance with applicable law.

B. Except when the Company ceases to maintain the Closed Block as provided in paragraph A above, none of the assets, including the revenue therefrom, allocated to the Closed Block or acquired by the Closed Block shall revert to the benefit of the shareholders of the Company.

Schedule G-1. Investment Fees

Cash in banks and short term investments	13 bp
Investment Grade Public Bonds (NAIC 1 & 2)	13 bp
Investment Grade Private Placement Bonds (NAIC 1 & 2)	24 bp
Below Investment Grade Public Bonds (NAIC 3, 4, 5 & 6)	19 bp
Below Investment Grade Private Placement Bonds (NAIC 3, 4, 5 & 6)	44 bp
Mortgages	29 bp
Public Equities (including REITs)	39 bp
Private Equities (including REITs)	204 bp
Real Estate	204 bp
Mutual funds and co-investment partnerships (which pay fees from fund assets and deliver a net return to the Company)	4 bp
Policy loans and premiums due, and interest due and accrued on assets above	0 bp
Other assets:	the rates most consistent with those above

Schedule G-2. Administrative Fees

$54 per Traditional Ordinary life (but not including Intermediate) policy, including any such policy on an nonforfeiture insurance option (reduced paid up and extended term insurance), and $54 per Retirement Annuity contract,

plus

$0.66 per $1000 of death benefit on Traditional Ordinary (but not Intermediate) policies and riders, including those policies on the nonforfeiture insurance options (reduced paid up and extended term insurance), where death benefit includes the insurance in force on paid up additions and excludes any adjustments to a death benefit for termination or mortuary dividends, dividend accumulations, accidental death benefits, delayed payment interest, or to repay policy loans,

plus

$7.25 per $1000 of death benefit (defined as above) on Weekly Premium policies,

plus

$4.50 per $1000 of death benefit (defined as above) on Intermediate policies,

plus

0.65% of unmatured statutory reserves (including dividend accumulations) on Retirement Annuity contracts.

In addition, certain percentage of premium fees for administrative expenses and commissions are provided in Part Two, Section V.B above.

Schedule G-3 Funding Adjustment Charges

Series	Percent of First Year Recurring Premium (Annualized), including riders, modal loadings and policy fees
Gibraltar (if any)	125%
Estate	151%
Legacy	182%